

CHURCH RESOURCE MINISTRIES

FINANCIAL STATEMENTS
With Independent Auditors' Report

December 31, 2017 and 2016

CHURCH RESOURCE MINISTRIES

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Church Resource Ministries
Anaheim, California

We have audited the accompanying financial statements of Church Resource Ministries (CRM), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to CRM's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CRM's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors
Church Resource Ministries
Anaheim, California

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Church Resource Ministries as of December 31, 2017 and 2016, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Capin Crouse LLP

Brea, California
September 6, 2018

CHURCH RESOURCE MINISTRIES

Statements of Financial Position

	December 31,	
	2017	2016
ASSETS:		
Cash and cash equivalents	\$ 2,106,843	\$ 1,451,826
Investments	7,857,414	7,554,286
Contributions receivable	485,150	800,415
Notes receivable	64,764	90,394
Prepaid expenses and other assets	123,751	150,802
Land, buildings, and equipment - at cost, net	688,903	731,875
Total Assets	<u>\$ 11,326,825</u>	<u>\$ 10,779,598</u>
LIABILITIES AND NET ASSETS:		
Accounts payable	\$ 117,383	\$ 141,001
Accrued expenses	79,203	71,359
Capital lease payable	10,935	17,656
	<u>207,521</u>	<u>230,016</u>
Unrestricted net assets:		
Unrestricted	5,491,604	4,259,298
Temporarily restricted	5,627,700	6,290,284
	<u>11,119,304</u>	<u>10,549,582</u>
Total Liabilities and Net Assets	<u>\$ 11,326,825</u>	<u>\$ 10,779,598</u>

See notes to financial statements

CHURCH RESOURCE MINISTRIES

Statements of Activities

	Year Ended December 31,					
	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT, REVENUE, AND RECLASSIFICATIONS:						
Contributions	\$ 941,613	\$ 14,626,216	\$ 15,567,829	\$ 976,528	\$ 12,547,409	\$ 13,523,937
Program revenue	699,496	-	699,496	567,226	-	567,226
Investment income	978,730	-	978,730	459,192	-	459,192
Net assets released from restrictions:						
Satisfaction of program restrictions	15,288,800	(15,288,800)	-	12,628,916	(12,628,916)	-
	<u>17,908,639</u>	<u>(662,584)</u>	<u>17,246,055</u>	<u>14,631,862</u>	<u>(81,507)</u>	<u>14,550,355</u>
EXPENSES:						
Salaries and benefits	11,307,019	-	11,307,019	10,674,282	-	10,674,282
Grants	2,421,443	-	2,421,443	2,184,973	-	2,184,973
Ministry expenses	915,650	-	915,650	947,635	-	947,635
Special events	222,937	-	222,937	515,157	-	515,157
Travel	511,267	-	511,267	393,937	-	393,937
Professional services	399,234	-	399,234	314,918	-	314,918
Occupancy	255,899	-	255,899	255,003	-	255,003
Depreciation and amortization	107,096	-	107,096	183,385	-	183,385
Supplies	194,265	-	194,265	142,164	-	142,164
Printing and postage	109,642	-	109,642	91,713	-	91,713
Other expenses	231,881	-	231,881	293,300	-	293,300
Total Expenses	<u>16,676,333</u>	<u>-</u>	<u>16,676,333</u>	<u>15,996,467</u>	<u>-</u>	<u>15,996,467</u>
Change in Net Assets	1,232,306	(662,584)	569,722	(1,364,605)	(81,507)	(1,446,112)
Net Assets, Beginning of Year	<u>4,259,298</u>	<u>6,290,284</u>	<u>10,549,582</u>	<u>5,623,903</u>	<u>6,371,791</u>	<u>11,995,694</u>
Net Assets, End of Year	<u>\$ 5,491,604</u>	<u>\$ 5,627,700</u>	<u>\$ 11,119,304</u>	<u>\$ 4,259,298</u>	<u>\$ 6,290,284</u>	<u>\$ 10,549,582</u>

See notes to financial statements

CHURCH RESOURCE MINISTRIES

Statements of Cash Flows

	Year Ended December 31,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 569,722	\$ (1,446,112)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	107,096	183,385
Unrealized loss (gain) on investments	(875,659)	(317,862)
Loss on disposal of property	-	64,985
Net change in:		
Contributions receivable	315,265	357,106
Notes receivable	25,630	(8,693)
Prepaid expenses and other assets	27,051	(4,295)
Accounts payable	(23,618)	35,225
Accrued expenses	7,844	(10,435)
Net Cash Provided by (Used in) Operating Activities	<u>153,331</u>	<u>(1,146,696)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	610,000	210,000
Purchases of investments	(37,469)	(87,458)
Acquisition of property and equipment	<u>(64,124)</u>	<u>(32,490)</u>
Net Cash Provided by Investing Activities	<u>508,407</u>	<u>90,052</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on capital leases	<u>(6,721)</u>	<u>(6,019)</u>
Net Cash Used in Financing Activities	<u>(6,721)</u>	<u>(6,019)</u>
Change in Cash and Cash Equivalents	655,017	(1,062,663)
Cash and Cash Equivalents, Beginning of Year	<u>1,451,826</u>	<u>2,514,489</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 2,106,843</u></u>	<u><u>\$ 1,451,826</u></u>

See notes to financial statements

CHURCH RESOURCE MINISTRIES

Notes to Financial Statements

December 31, 2017 and 2016

1. NATURE OF ORGANIZATION:

Church Resource Ministries (CRM) is a nonprofit Christian corporation dedicated to developing leaders to strengthen and multiply the church worldwide.

CRM is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code). It is also exempt from state income taxes. Contributions by the public are deductible for income tax purposes. CRM has been classified as a publicly supported organization, which is not a private foundation under Section 509(a) of the Code. Income for CRM primarily consists of contributions from individuals.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of CRM have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. A summary of significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

CASH AND CASH EQUIVALENTS

For statements of financial position and cash flow purposes, cash and cash equivalents include cash on hand and on deposit. CRM's cash balances exceeded federally insured limits by approximately \$1,833,000 and \$1,200,000, respectively. CRM does not believe these funds to be at substantial risk of loss due to the lack of federal insurance coverage.

INVESTMENTS

Investments are carried on the following basis:

- Investments in marketable debt securities, mutual funds, government securities, and equity securities with readily determinable fair values are reported at fair value.
- Investments in a private company are carried at appraisal value, which approximates fair value.
- Donated investments are recorded at market value on the date of donation and are thereafter carried in accordance with the above provisions.
- Life insurance policies and annuities are carried at cash surrender value, which approximates fair value.

CONTRIBUTIONS RECEIVABLE

Unconditional pledges are recognized as income when the pledge is received and recorded at fair value based upon estimated future cash flows. Unconditional pledges that are expected to be collected within one year are recorded at net realizable value. Unconditional pledges that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on these amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are expected to be received. Allowance on uncollectible receivables was \$20,000 and \$0 for the years ended December 31, 2017 and 2016, respectively.

CHURCH RESOURCE MINISTRIES

Notes to Financial Statements

December 31, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

LAND, BUILDINGS, AND EQUIPMENT

Expenditures for property and equipment over \$3,000 are capitalized at cost. Donated items are recorded at fair market value on the date of the gift. Depreciation is computed on the straight-line method over the estimated useful lives of the assets, ranging from 3 to 10 years for equipment and from 20 to 40 years for buildings and improvements.

NET ASSETS

The financial statements report amounts by class of net assets:

Unrestricted net assets are those currently available at the discretion of the board for use in CRM's operations or designated for specific purposes and those resources invested in land, buildings, and equipment.

Temporarily restricted net assets are those which are stipulated by donors for specific operating purposes or for capital projects or are time restricted.

All contributions are considered available for unrestricted use, unless specifically restricted by the donor or subject to legal restrictions. All contributions, whether restricted or unrestricted, are used under the direction and discretion of CRM's management and board of directors.

Contributions are recorded as temporarily restricted if they are received with donor stipulations that limit their use through purpose and/or time restrictions. When donor restrictions expire, that is when the purpose restriction is fulfilled or the time restriction expires, the net assets are reclassified from temporarily restricted to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. For contributions restricted by donors for the acquisition of property or other long-lived assets, the restriction is considered to be met when the property or other long-lived asset is placed in service.

SUPPORT, REVENUE, AND EXPENSES

Contributions are recorded when cash or unconditional promises-to-give have been received, or ownership of donated assets is transferred to CRM. Conditional promises-to-give are recognized when the conditions on which they depend are substantially met. CRM receives non-cash gifts which are recorded as support at the estimated fair market value on the date of the gift.

Revenue is recorded when earned. Expenses are recorded when incurred in accordance with the accrual basis of accounting.

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various program services and supporting activities have been summarized on a functional basis in note 10. Accordingly, certain costs, such as depreciation and payroll, have been allocated among the program services and supporting activities. Currently, there are no joint costs that have been allocated among program, general and administrative, and fundraising functions.

CHURCH RESOURCE MINISTRIES

Notes to Financial Statements

December 31, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

3. INVESTMENTS:

Investments consist of:

	December 31,	
	2017	2016
Money market accounts	\$ 265,813	\$ 403,806
Mutual funds	2,268,322	2,477,052
Exchange traded funds	1,578,455	1,456,192
Common stock	900,446	592,538
Annuities	2,844,378	2,624,698
	<u>\$ 7,857,414</u>	<u>\$ 7,554,286</u>

Investment income consists of:

	December 31,	
	2017	2016
Interest and dividend income	\$ 103,071	\$ 141,330
Unrealized and realized gains on investments	875,659	317,862
	<u>\$ 978,730</u>	<u>\$ 459,192</u>

The Fair Value Measurements and Disclosure Topic of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs consist of unobservable inputs and have the lowest priority. CRM uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, CRM measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are used only when Level 1 or 2 inputs were not available.

CHURCH RESOURCE MINISTRIES

Notes to Financial Statements

December 31, 2017 and 2016

3. INVESTMENTS, continued:

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2017 and 2016:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of December 31, 2017:				
Annuities	\$ 2,844,378	\$ -	\$ 2,844,378	\$ -
Mutual funds:				
Equity mutual funds:				
Large blend	1,300,441	1,300,441	-	-
Large growth	411,642	411,642	-	-
Large value	365,628	365,628	-	-
Medium blend	121,432	121,432	-	-
Medium growth	23,008	23,008	-	-
Small blend	46,171	46,171	-	-
Exchange traded funds:				
High yield bonds	381,984	381,984	-	-
Large blend	413,030	413,030	-	-
Large growth	250,504	250,504	-	-
Large value	451,124	451,124	-	-
Small blend	81,813	81,813	-	-
Common stock:				
Basic materials	57,098	57,098	-	-
Consumer goods	104,768	104,768	-	-
Financial	74,768	74,768	-	-
Healthcare	57,320	57,320	-	-
Industrial goods	127,253	127,253	-	-
Services	107,435	107,435	-	-
Technology	371,804	371,804	-	-
	<u>\$ 7,591,601</u>	<u>\$ 4,747,223</u>	<u>\$ 2,844,378</u>	<u>\$ -</u>

CHURCH RESOURCE MINISTRIES

Notes to Financial Statements

December 31, 2017 and 2016

3. INVESTMENTS, continued:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of December 31, 2016:				
Annuities	\$ 2,624,698	\$ -	\$ 2,624,698	\$ -
Mutual funds:				
Equity mutual funds:				
Large blend	1,388,139	1,388,139	-	-
Large growth	387,985	387,985	-	-
Large value	291,375	291,375	-	-
Medium blend	302,535	302,535	-	-
Medium growth	68,229	68,229	-	-
Small blend	38,789	38,789	-	-
Exchange traded funds:				
High yield bonds	619,988	619,988	-	-
Large blend	336,315	336,315	-	-
Large growth	207,353	207,353	-	-
Large value	231,409	231,409	-	-
Small blend	61,127	61,127	-	-
Common stock:				
Basic materials	36,104	36,104	-	-
Consumer goods	29,534	29,534	-	-
Financial	62,499	62,499	-	-
Healthcare	79,780	79,780	-	-
Industrial goods	67,302	67,302	-	-
Services	156,258	156,258	-	-
Technology	161,061	161,061	-	-
	<u>\$ 7,150,480</u>	<u>\$ 4,525,782</u>	<u>\$ 2,624,698</u>	<u>\$ -</u>

CHURCH RESOURCE MINISTRIES

Notes to Financial Statements

December 31, 2017 and 2016

4. CONTRIBUTIONS RECEIVABLE:

Contributions receivable consist of:

	December 31,	
	2017	2016
Unconditional promises-to-give before discount for present value of cash flows	\$ 489,260	\$ 804,000
Less discount for present value of cash flows	(4,110)	(3,585)
Promises-to-give receivable, net	<u>\$ 485,150</u>	<u>\$ 800,415</u>
Amounts due in:		
Less than one year	\$ 367,727	\$ 698,000
Two to five years	<u>121,533</u>	<u>106,000</u>
	<u>\$ 489,260</u>	<u>\$ 804,000</u>

5. NOTE RECEIVABLE:

Note receivable consists of a receivable from an individual for the sale of property in October 2012. Payments are to be collected in monthly principal and interest installments of 13,380 South African Rand (effectively \$64,764 United States Dollar as of December 31, 2017), with interest calculated at 9.25%. Payment is due in full in February 2030. Future minimum receipts are as follows:

<u>Year Ending December 31,</u>	
2018	\$ 6,468
2019	6,566
2020	7,200
2021	7,895
2022	8,657
Thereafter	<u>27,978</u>
	<u>\$ 64,764</u>

CHURCH RESOURCE MINISTRIES

Notes to Financial Statements

December 31, 2017 and 2016

6. LAND, BUILDINGS, AND EQUIPMENT:

Land, buildings, and equipment consist of the following:

	December 31,	
	2017	2016
Land	\$ 149,059	\$ 149,059
Buildings and improvements	836,285	795,728
Furniture and equipment	926,347	902,780
	1,911,691	1,847,567
Less accumulated depreciation	(1,222,788)	(1,115,692)
	<u>\$ 688,903</u>	<u>\$ 731,875</u>

7. CAPITAL LEASE PAYABLE:

CRM entered into a capital lease agreement in 2014 for an asset that is included in equipment in note 6. Amortization expense of the capital lease was approximately \$6,000 for both years ended December 31, 2017 and 2016, and is included in depreciation and amortization expense on the statements of activities. The following is the asset under a capital lease:

	December 31,	
	2017	2016
Equipment	\$ 31,702	\$ 31,702
Accumulated amortization	(21,134)	(14,793)
	<u>\$ 10,568</u>	<u>\$ 16,909</u>

The capital lease payable consists of a copier lease with monthly principal and interest payments of \$555 and an interest rate of 2.02%. The payable matures September 2019. Future minimum payments under this capital lease are as follows:

<u>Year Ending December 31,</u>	
2018	\$ 6,600
2019	4,470
	11,070
Less interest	(135)
	<u>\$ 10,935</u>

CHURCH RESOURCE MINISTRIES

Notes to Financial Statements

December 31, 2017 and 2016

8. NET ASSETS:

Net assets consist of:

	December 31,	
	2017	2016
Unrestricted:		
Undesignated	\$ 4,630,454	\$ 2,449,342
Funds held for fields	43,121	30,726
Designated for ministry projects	140,061	1,065,011
Net investment in land, buildings, and equipment	677,968	714,219
	<u>\$ 5,491,604</u>	<u>\$ 4,259,298</u>
Temporarily Restricted:		
Missionary support	\$ 3,699,714	\$ 2,905,014
Operations in foreign countries	597,971	168,403
Ministry projects	844,865	2,416,452
Contributions receivable	485,150	800,415
	<u>\$ 5,627,700</u>	<u>\$ 6,290,284</u>

9. OPERATING LEASES:

CRM has various equipment leases that expire through December 2019. Total rental expense under these agreements amounted to approximately \$98,000 and \$114,000 for the years ended December 31, 2017 and 2016, respectively. Total future minimum rental commitments due are as follows:

<u>Year Ending December 31,</u>	
2018	\$ 235,025
2019	<u>83,840</u>
	<u>\$ 318,865</u>

CHURCH RESOURCE MINISTRIES

Notes to Financial Statements

December 31, 2017 and 2016

10. FUNCTIONAL EXPENSE ALLOCATION:

The following is an allocation of the CRM's expenses by function:

	December 31,	
	2017	2016
Program services	\$ 13,917,789	\$ 13,002,809
Support activities:		
General and administrative	1,956,615	2,312,907
Fundraising	801,929	680,751
	<u>\$ 16,676,333</u>	<u>\$ 15,996,467</u>

11. RETIREMENT PLAN:

CRM has an employee retirement plan under Internal Revenue Code Section 403(b). Under this plan, CRM does not contribute to individual accounts. No changes have been made to this plan during the year.

12. RELATED PARTY TRANSACTIONS:

During 2015, CRM began supporting another non-profit organization with a common board member. The amounts granted to this other organization was approximately \$94,000 and \$51,500 for the years ended December 31, 2017 and 2016, respectively.

CRM held investments managed with a firm whose president and owner is a board member of CRM. For the years ended December 31, 2017 and 2016, the fair value of investments was approximately \$2,603,000 and \$2,267,000, respectively. Fees paid to the investment firm was approximately \$22,000 and \$24,000 for the years ended December 31, 2017 and 2016, respectively.

13. SUBSEQUENT EVENTS:

Subsequent events were evaluated through September 6, 2018, which is the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.